ABITIBI

1976 Annual Report

Annual Report for the year ended December 31, 1976

To see a tree at its finest, rise at 6:00 a.m. on an autumn morning and capture on film the foliage glistening with frosty moisture as it catches the morning sun. On the cover and within the pages of the annual report, we feature the foliage of some tree species that are used in the forest product industry in Canada.

The map spots the forest, pulp, paper, building products and converting plants managed by Abitibi that stretch across the breadth of North America. The company supplies the world with forest products that includes: newsprint, fine papers, pulp, lumber, building products to mention a handful.

Abitibi is continent-wide in size and scope; world-wide in the end use of its forest products. For this reason, good forest management is essential to the permanent maintenance of a continuing source of trees, a renewable resource. Governments have planted on crown-owned forests licensed to Abitibi, 30 million trees in the five year period, 1971-1975. This was added to the many millions planted by "nature". Starting in 1976, Abitibi began an intensive forest regeneration program on its own lands that will lead to a greater harvest in a shorter period of time.

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ABITIBI PAPER COMPANY LTD.

Head Office: Toronto-Dominion Centre, Toronto, Canada M5K 1B3

The Annual Meeting of Shareholders will be held in the Cinema Theatre, Toronto-Dominion Centre, Toronto, Canada, on Tuesday, April 19, 1977 at 10:30 a.m. Toronto time.

On peut obtenir ce rapport annuel en français sur demande.

Highlights

(thousands of dollars except per share calculations)	1976	1975*
Sales, less delivery expenses	$880,351	$764,384
Depreciation and depletion	$ 41,942	$ 42,071
Income taxes	$ 13,483	$ 15,141
Mining income	$ 3,988	$ 4,845
Net earnings	$ 13,024	$ 13,985
Per common share	$ .47	$ .63
Dividends declared—preferred shares	$ 4,584	$ 2,622
—common shares	$ 2,172	$ 7,239
—per common share	$ .12	$ .40
Additions to fixed assets	$ 54,371	$ 71,041
Working capital	$224,562	$229,023
Long-term debt	$243,168	$255,522
Common shareholders' equity	$262,192	$255,924
Per common share	$ 14.49	$ 14.14
Number of common shareholders	22,184	26,120

*1975 figures have been restated as explained in Note 5 to the financial statements.

Shown are Abitibi executives who are directors of the Company. From left to right: R. C. Gimlin, J. E. Haire, T. J. Bell, C. H. Rosier and C. R. Tittemore.

Report of the Directors

Net earnings in 1976 at $13.0 million were most unsatisfactory. The return on shareholders' equity was just over 4%. Even this is an overstatement of the true position since depreciation deducted from income to arrive at net earnings is based on the historical cost of fixed assets which is far less than current replacement cost.

In the 1975 Annual Report we reviewed at length the strike by the Canadian Paperworkers Union. On February 19, 1976 the Abitibi mills reached a wage settlement which basically provided for 14%, 10% and 8% increases over a three-year contract.

We anticipated serious problems in restoring operations after this lengthy shutdown. Unfortunately these problems have been even worse than expected and our first quarter loss of $8.0 million highlighted these difficulties. In fact earnings for the nine months ended September 30, 1976 amounted to only $3.8 million.

The forest products industry also had to contend with somewhat sluggish markets for most of its products which created highly competitive conditions. This, together with a higher valued Canadian dollar, reduced profit margins.

The cliché "guarded optimism" best describes our outlook for the Canadian forest products industry for 1977. We are looking for faster growth of the economy in the United States than was experienced in 1976 and with little change in the rate of inflation. Growth in the Canadian economy is expected to be somewhat less than in the United States and the rate of inflation somewhat higher.

We anticipate that the Canadian dollar will be at a discount in terms of the U.S. dollar, a relationship which we feel reflects the relative strengths and rates of inflation of the two economies. A positive factor for the newsprint industry is an increasing aggressiveness on the part of newspaper publishers to capture more readers and a larger share of the advertising dollar. The lumber industry should benefit from declining interest rates which in turn should lead to housing starts in the United States increasing in 1977 at a rate in excess of the growth in the economy as a whole.

In 1977 we expect Abitibi's earnings to improve considerably but not to attain the level needed to permit adequate reinvestment in plant and equipment and at the same time provide a reasonable return to shareholders. Capital expenditures on new projects will be limited primarily to those required for normal operation and to maintain our program for pollution abatement. Two major projects now under construction will be completed —a sawmill at White River, Ontario, and a refiner groundwood installation at the Price Company's Grand Falls, Newfoundland, mill.

The loss of earnings and cash flow due to the strike, the added investment in working capital necessitated by inflation and the escalated cost of replacing worn out facilities mean that the company must carefully ration its expenditures on new projects. We recognize the urgent need for environmental control expenditures

but we also recognize an equally urgent need to improve our cost competitiveness with producers in the United States. Financial limitations will prevent us from reaching either goal as quickly as we would wish. We feel, however, that irreparable harm could be done to the forest products industry in Canada if it is compelled to devote too high a percentage of its available capital to environmental projects.

Abitibi, through its Beaupré mill and its interest in The Price Company Limited, has five large paper mills and several smaller operations in the Province of Quebec. The election of a new government in that province with declared objectives of obtaining political sovereignty for Quebec and of proposing to Canada a mutually advantageous economic association gives rise to problems of serious concern for all Canadians. Abitibi has always been proud of its long association with the people of Quebec and of the part it has played in the industrial and economic life of that province. It has operated under many different governments and has always obtained their co-operation and assistance. Abitibi will continue to pursue this time-honoured tradition with the newly elected government of Quebec, it being noted that, since the election, there has been no change in our operating or investment plans for 1977.

Inflation is still our country's biggest problem. The period of controls is providing a breathing spell but in itself is not a cure. Restraint has to become a way of life, not something to be endured until the crisis is over. In this, governments should lead the way. Our concern is that because governments have not restrained their own expenditures the country will be plagued with further inflation.

Abitibi management recognizes communications as a problem requiring greater attention. Successful communications with employees, customers, shareholders, politicians and the public have not been up to a desirable level.

For example, a recent opinion survey by the Canadian Pulp and Paper Association told us that the public admits a lack of knowledge about industry earnings, but they think that it makes too much money; that it earns about 23¢ on the sales dollar and that if earnings were reduced to 21¢ they would be reasonable. The truth is that for 1976 Abitibi's earnings are only 1.5¢ on the sales dollar and that over the past five years averaged only 3.8¢. Accordingly management is addressing itself to the improvement of communications.

It is with great regret that we record the deaths of Douglas W. Ambridge and The Rt. Hon. Lord Thomson of Fleet. Mr. Ambridge became President of Abitibi in 1946 and provided strong and colourful leadership until his retirement. For the past nine years we have been pleased to recognize him as our Honorary Chairman. Lord Thomson was associated in business with Abitibi for over 40 years and for nine years served with distinction on the Board of Directors. For the past six years he was an Honorary Director.

George M. Brain, a Director and Group Vice-President, Fine Papers, developed a health problem which unfortunately led to his early retirement. His outstanding service with the company has been appreciated.

John E. Haire, Vice-President, Finance was appointed a Director to replace Mr. Brain.

Garner Anthony, Chairman of the Board, Cox Enterprises Inc., became a Director at the last annual meeting. Within a few months Mr. Anthony expressed concern that this directorship involved a conflict of interest and his resignation was accepted with regret.

The quarterly dividend on common shares was suspended in September 1975 because of loss of earnings resulting from the strike. The Board decided that a modest payment should be made during 1976 and declared a special dividend of 12¢ per common share for payment on December 1, 1976. It is our desire to restore regular quarterly dividends as soon as business conditions warrant such payments.

The understanding and support which has been provided throughout the year by employees, customers and shareholders is sincerely appreciated.

On behalf of the Board,

T. J. Bell.

Chairman and Chief Executive Officer
Toronto, February 15, 1977

Financial Review

Consolidated net sales for 1976 amounted to $880.4 million compared with sales for the previous year of $764.4 million, an increase of $116.0 million.

Net earnings in 1976 amounted to $13.0 million compared with $14.0 million in 1975 (after restatement as explained below). After providing for preferred share dividends, earnings per common share in 1976 were 47¢ and in 1975 were 63¢. These earnings reflect the impact of the strike in both years and compare with $2.50 earned in 1974.

Abitibi's working capital position at December 31, 1976 amounted to $224.6 million and although at a satisfactory level reflected a decrease of $4.5 million compared with the previous year. Net cash resources at the end of 1976 amounted to $4.3 million, a substantial reduction from the $56.0 million at December 31, 1975. This was expected due primarily to the increase, amounting to $52.2 million, in accounts receivable as the plants became operational following the strike.

The capital expenditure program for 1976 was completely rescheduled because of the strike and amounted to $22.5 million for Abitibi and $31.9 million for Price, for a total of $54.4 million. Planned capital expenditures for 1977 are $31 million for Abitibi and $25 million for Price, for a total of $56 million.

There was no major financing activity during 1976. In the year $12.7 million was applied to the reduction of long-term debt in comparison with $11.6 million in 1975. Long-term debt amounted to $243.2 million at December 31, 1976 compared with $255.5 million at the end of the previous year. In 1976 Series A and B preferred shares with a value of $2.2 million were redeemed compared with $0.2 million of Series A preferred shares in 1975.

In 1968 The Price Company Limited acquired 50% of the common shares of Boise-Price Southern Newsprint Corporation and committed itself to taking 50% of the output from the newsprint facility at DeRidder, Louisiana, which is leased by Boise-Price Southern from the Parish of Beauregard, Louisiana, and which was started up in 1970. Prior to 1976, Price's investment was carried at cost as Price had not yet agreed to participate in the acquisition by Boise-Price Southern of a long-term wood supply position for DeRidder. Late in 1976 Price decided to participate fully in this acquisition program and, accordingly, the equity method of accounting for Price's share of Boise-Price Southern's earnings was adopted retroactively.

Under this method, Price's share of earnings in the amount of $1,803,000 was recorded in 1976 and $1,221,000, being Price's share of earnings in 1975 less minor amounts of accumulated losses to the beginning of 1975, has been retroactively applied to 1975.

The consolidated balance sheet at December 31, 1976 reflects the minority shareholders' interest in Price of $111.7 million. This consists of the following:

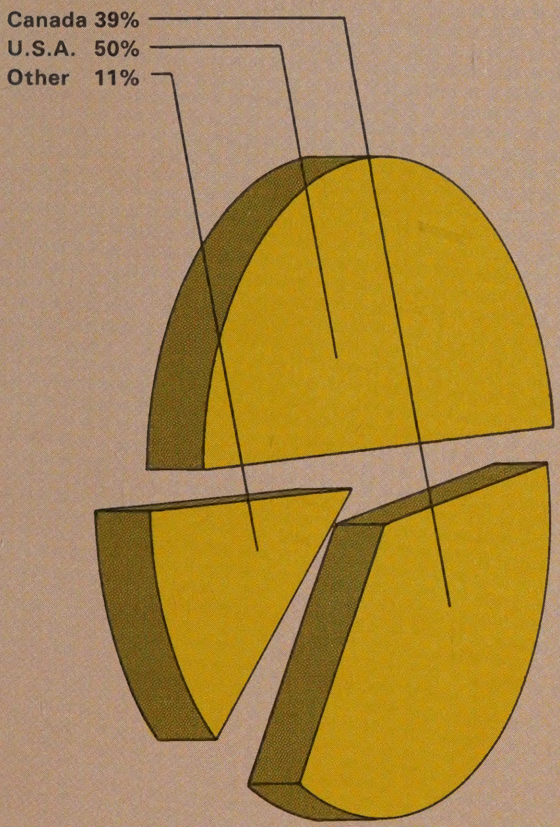
The Price Company Limited	
Preferred share equity	$ 3,750,000
Common share equity —46.5%	97,004,000
Price subsidiary companies, principally Gaspesia Pulp and Paper Company Ltd. in which The New York Times has a 49% interest	10,917,000
	$111,671,000

A substantial portion of our revenue comes from sales in U.S. funds representing exports from Canada. Consequently any variance in the value of the Canadian dollar compared with the U.S. dollar has a significant impact on company earnings. A premium rate for the Canadian dollar existed during most of 1976, although at the end of the year it was back to a small discount in terms of the U.S. dollar. Overall the exchange rate for the year was unfavourable to Abitibi and resulted in a substantial loss. The adverse impact on pre-tax earnings when compared with 1975 was $12.8 million. At our present level of operations it is estimated that each one cent change in exchange rates between the U.S. and Canadian dollar affects annual after-tax earnings by approximately 11¢ per common share.

The provision for income taxes is higher than might be expected because losses of certain subsidiary companies in the group could not be used to offset the taxable earnings of other companies. These losses, which occurred principally in the Price group of companies, amounted to $4.2 million in 1976. Any future income tax reductions which result through utilization of these losses will be included in earnings, net of minority interests, in the year in which realized.

The domestic operations of the company continued to be subject to the federal government's anti-inflation control program. Specifically, controls are applicable to prices, profits, compensation and dividends. Excess revenues as defined for purposes of the anti-inflation guidelines may result not only from increased selling prices but also because of improved productivity and cost savings. These excess revenues may occur in one or more products or product lines while in other products or product lines there may be deficiencies from permitted revenues which are not allowed as an offset. In one product line excess revenues developed as a result of improved operating efficiencies. The amount was less than ¼ of 1% of our total Canadian sales. It is anticipated that these excess revenues will be eliminated in the first half of 1977 by cost increases which are expected to occur within this product line. Abitibi's earnings, if measured for compliance purposes on a consolidated basis, would fall below the earnings levels permitted under the guidelines for 1976. The effect of the guidelines as they apply to 1977 domestic operations indicates that such earnings will not exceed the level permitted by the regulations.

Net Sales by Market—1976



Net Sales by Product
(thousands of dollars)

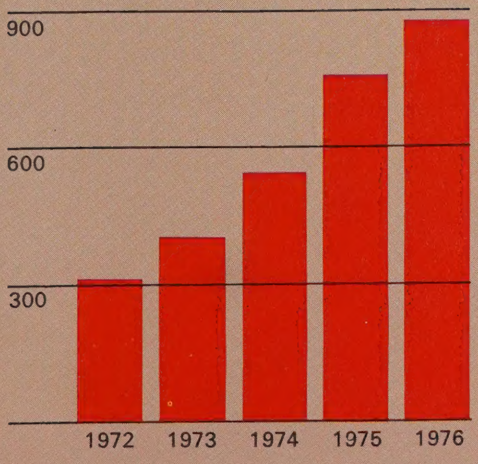
	1976	1975
Newsprint and groundwood specialty papers	$479,869	$426,849
Fine papers, including merchant and converting operations	140,867	126,355
Paperboard, kraft paper and packaging	33,128	54,822
Pulp	12,294	8,684
Lumber	43,120	25,600
Building products	124,694	75,526
Converted and resale products of Price Wilson	46,379	46,548
	$880,351	$764,384

Net Sales and Net Earnings by Quarters
(thousands of dollars)

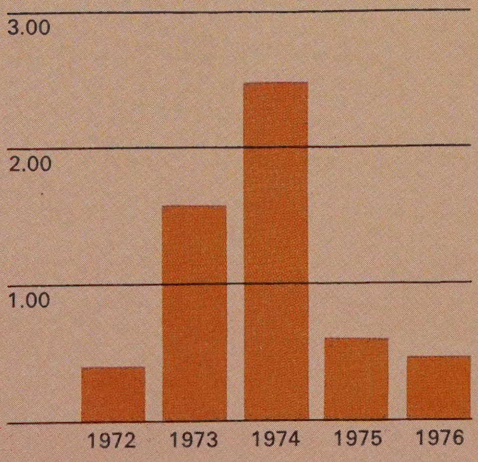
	Net Sales		Net Earnings*	
	1976	1975	1976	1975
1st quarter	$156,048	$206,197	$(8,014)	$ 9,127
2nd quarter	241,584	233,585	6,706	10,566
3rd quarter	235,987	190,371	5,091	407
4th quarter	246,732	134,231	9,241	(6,115)
	$880,351	$764,384	$13,024	$13,985

*Quarterly figures for 1976 and 1975 have been restated as explained in Note 5 to the financial statements.

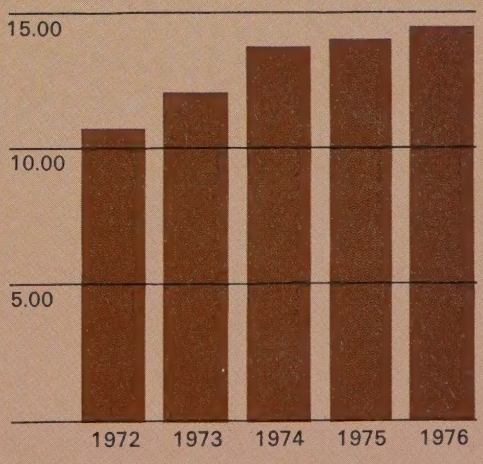
Net Sales
(millions of dollars)



Net Earnings Per Common Share
(dollars)



Equity Per Common Share
(dollars)



Consolidated Net Earnings

(thousands of dollars except per share calculations)

	Year Ended December 31 1976	1975
Sales, less delivery expenses	$880,351	$764,384
Other income (note 2)	4,439	6,407
	884,790	770,791
Cost of sales	728,139	616,485
Selling, general and research expenses	64,830	59,704
Depreciation and depletion	41,942	42,071
Interest and expense on long-term debt	22,308	16,240
Other interest	2,724	6,265
Income taxes	13,483	15,141
	11,364	14,885
Interest in earnings of non-mining companies accounted for on the equity basis (note 5)	1,503	1,221
	12,867	16,106
Minority shareholders' interest in after-tax earnings	3,831	6,966
	9,036	9,140
Mining income (note 3)	3,988	4,845
Net earnings	$ 13,024	$ 13,985
Net earnings per common share—before mining income	$ .33	$ .41
—mining income	.14	.22
—total	$ .47	$ .63

Consolidated Retained Earnings

(thousands of dollars)

	Year Ended December 31 1976	1975
Retained earnings at beginning of year	$205,923	$202,889
Net earnings	13,024	13,985
	218,947	216,874
Dividends declared—preferred shares	4,584	2,622
—common shares	2,172	7,239
Expenses of preferred share issue, net of income taxes	—	1,090
Retained earnings at end of year	$212,191	$205,923

Changes in Consolidated Financial Position
(thousands of dollars)

	Year Ended December 31 1976	1975
Working Capital Provided By:		
Net earnings	$ 13,024	$ 13,985
Charges (credits) to earnings not affecting working capital:		
Depreciation and depletion	41,942	42,071
Deferred income taxes	7,946	8,887
Interest in earnings of companies accounted for on the equity basis—		
Mattabi Mines Limited	(4,155)	(4,307)
Other	(1,503)	(1,221)
Minority shareholders' interest	3,687	7,428
Other	(658)	(966)
Funds from operations	60,283	65,877
Dividends from Mattabi Mines Limited	5,200	7,200
Decrease in investments	3,642	1,116
Disposals of fixed assets	1,692	3,217
Issue of long-term debt	1,513	126,154
Issue of preferred shares	—	38,590
Other items—net	988	531
	73,318	242,685
Working Capital Used For:		
Additions to fixed assets	54,371	71,041
Reduction of long-term debt	12,740	11,645
Dividends:		
Shareholders of the Company	6,756	9,861
Minority shareholders of subsidiary companies	765	4,280
Retirement of preferred shares	2,197	174
Additional investment in—		
Equity-interest companies	950	—
The Price Company Limited	—	4,609
	77,779	101,610
Increase (Decrease) in Working Capital	(4,461)	141,075
Working Capital at Beginning of Year	229,023	87,948
Working Capital at End of Year	$224,562	$229,023

Consolidated Balance Sheet

(thousands of dollars)

ASSETS

	December 31 1976	1975
Current Assets:		
Cash and short-term investments	$ 20,693	$ 61,414
Accounts receivable	136,575	84,339
Income taxes recoverable	4,640	11,800
Inventories (note 6)	188,814	175,065
Prepaid expenses	4,772	4,407
	355,494	337,025
Fixed Assets:		
Properties, plant and equipment	788,786	740,498
Logging equipment and development	44,990	39,137
Woodlands and mining and water power rights	43,472	43,819
	877,248	823,454
Less—accumulated depreciation and depletion	387,811	345,249
	489,437	478,205
Other Assets:		
Equity interests		
Mattabi Mines Limited (note 4)	17,560	18,605
Other companies (note 5)	4,326	1,883
Receivables not currently due	5,331	6,807
Investments (note 7)	5,243	7,430
Cost of shares of acquired companies in excess of values attributed to underlying net assets, less accumulated amortization	20,289	20,341
Unamortized discount and expense on long-term debt	1,684	1,849
	54,433	56,915
	$899,364	$872,145

The financial statements have been approved by the Board:

T. J. Bell, Director

C. H. Rosier, Director

LIABILITIES	December 31 1976	1975
Current Liabilities:		
Bank indebtedness	$ 16,347	$ 5,378
Accounts payable and accrued liabilities	95,104	84,667
Income and other taxes payable	8,452	7,475
Long-term debt due within one year (note 8)	11,029	10,482
	130,932	108,002
Long-Term Debt (note 8)	243,168	255,522
Deferred Income Taxes	99,725	91,299
Unrealized Gain on Translation of Foreign Currencies	4,660	4,047
Minority Shareholders' Interest	111,671	108,090

SHAREHOLDERS' EQUITY

Preferred Shares (note 9)		
Authorized: 1,000,000 shares par value $50 issuable in series (1,000,000 shares issued; 59,690 shares redeemed)		
Outstanding: 180,310 7½% Cumulative Redeemable Preferred Shares, Series A (1975—185,230 shares)	9,016	9,261
760,000 10% Cumulative Redeemable Preferred Shares, Series B (1975—800,000 shares)	38,000	40,000
Common Shares (note 10)		
Authorized: 24,000,000 shares without nominal or par value		
Issued: 18,098,123 shares (1975—18,097,369 shares)	50,001	50,001
Retained Earnings	212,191	205,923
	309,208	305,185
	$899,364	$872,145

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

(a) Principles of Consolidation

The consolidated financial statements include the accounts of Abitibi Paper Company Ltd. and all companies in which it holds more than a 50% interest. Investments in companies in which Abitibi holds a major interest, but not more than 50%, are included in the consolidated financial statements in accordance with the equity method of accounting.

The cost of shares of acquired companies in excess of values attributed to underlying net assets is recorded as an asset on the consolidated balance sheet. The excess for companies acquired prior to 1974 is not being amortized. For two lumber companies acquired during 1974, the excess is being amortized on a straight-line basis over 20 years.

(b) Translation of Foreign Currencies

Balances and transactions in other currencies have been translated into Canadian dollars as follows:

Fixed assets and investments at exchange rates in effect at dates of acquisition;

Other assets and liabilities at rates in effect at December 31;

Items included in net earnings at rates prevailing during the year, except depreciation and depletion which are on the same basis as the related fixed assets.

The unrealized gain on translation of long-term debt payable in United States funds is deferred on the balance sheet. Realization of this gain is dependent on the exchange rate in effect when the debt is retired.

(c) Inventories

Inventories of finished products, work in process and materials and operating supplies are valued at the lower of average cost and net realizable value. Inventories of pulpwood and sawlogs are valued at average cost.

(d) Fixed Assets and Depreciation

Fixed assets are recorded substantially at cost. Depreciation is provided at rates considered adequate to amortize the cost over the productive lives of the assets. The principal asset category is primary production equipment which is depreciated over 20 years on a straight-line basis. Timber limits are depleted on the unit-of-production basis to the extent of amounts allowable for income tax purposes.

(e) Discount and Expense on Long-Term Debt

Discount and expense on long-term debt is amortized over the terms of the related obligations.

(f) Research and Development

Research and development expenditures are written off when incurred except for expenditures on physical facilities which are capitalized and depreciated on a straight-line basis over their estimated useful lives.

(g) Pension Costs

Pension costs are charged to earnings as Company contributions are made to the pension plans.

(h) Income Taxes

Earnings are charged with income taxes relating to reported profits. Differences arise between such taxes and taxes currently payable due to including items of revenue and expense (such as depreciation) in reported profits in periods other than those in which they are taken up in the calculation of taxable income. These differences are reflected as Deferred Income Taxes in the financial statements.

(i) Earnings Per Common Share

Earnings per common share calculations are based on the average number of shares outstanding during the year and are computed after allowing for dividends declared on preferred shares. The per share earnings for 1975, which have been restated to this basis, had previously recognized preferred dividends accrued but not declared.

2. Other Income

	1976	1975
Interest and miscellaneous income	$ 2,854,000	$ 4,326,000
Gain on current maturities of long-term debt	1,329,000	934,000
Net gain on disposals of investments and fixed assets	256,000	1,147,000
	$ 4,439,000	$ 6,407,000

3. Mining Income

	1976	1975
Mining income (loss) of The Price Company Limited	$ (374,000)	$ 2,137,000
Less: Income taxes	(63,000)	1,137,000
Minority shareholders' interest in after-tax earnings (loss)	(144,000)	462,000
	(167,000)	538,000
Equity in earnings of Mattabi Mines Limited	4,155,000	4,307,000
	$ 3,988,000	$ 4,845,000

4. Equity Interest—Mattabi Mines Limited

Abitibi owns 40% of the common shares of Mattabi Mines Limited and its investment is carried at the nominal cost of $3 plus its interest in undistributed earnings in accordance with the equity method of accounting.

The following is a condensed summary of the financial position of Mattabi as shown by its audited financial statements at December 31:

Assets	1976	1975
Current assets	$25,578,000	$22,764,000
Property, plant and equipment, at cost less accumulated depreciation	21,741,000	23,894,000
Mining properties and rights, at cost less amortization	2,250,000	2,625,000
Other assets, primarily pre-production and deferred development expenditures at cost less amounts written off	4,732,000	5,571,000
	$54,301,000	$54,854,000
Liabilities and shareholders' equity		
Current liabilities	$ 8,153,000	$ 5,718,000
Capital stock	2,625,000	2,625,000
Retained earnings	43,523,000	46,511,000
	$54,301,000	$54,854,000
Net earnings	$10,012,000	$10,766,000
Abitibi's equity in Mattabi (adjusted for amortization of mining properties and rights)		
Equity at beginning of year	$18,605,000	$21,498,000
Equity in earnings	4,155,000	4,307,000
	22,760,000	25,805,000
Dividends received	5,200,000	7,200,000
Equity at end of year	$17,560,000	$18,605,000

5. Equity Interest—Other Companies

	Boise-Price Southern Newsprint Corporation	Other	Total
Equity at beginning of year	$1,231,000	$ 652,000	$ 1,883,000
Additional investment	—	950,000	950,000
Equity in earnings (loss)	1,803,000	(300,000)	1,503,000
	3,034,000	1,302,000	4,336,000
Dividend received	—	10,000	10,000
Equity at end of year	$3,034,000	$ 1,292,000	$ 4,326,000

In 1968 The Price Company Limited acquired 50 per cent of the common shares of Boise-Price Southern Newsprint Corporation and committed itself to taking 50 per cent of the output from the newsprint facility at DeRidder, La which is owned and leased by the Parish of Beauregard, La and which was started up in 1970. Prior to 1976, Price's investment was carried at cost as Price had not yet agreed to participate in the acquisition by Boise-Price Southern of a long-term wood supply position for DeRidder. Late in 1976 Price decided to participate fully in this acquisition program and, accordingly, the equity method of accounting for Price's share of Boise-Price Southern's earnings was adopted retroactively. Under this method, Price's share of earnings in the amount of $1,803,000 was recorded in 1976 and $1,221,000, being Price's share of earnings in 1975 less minor amounts of accumulated losses to the beginning of 1975, has been retroactively applied to 1975.

6. Inventories	**1976**	**1975**
Finished products and work in process	$ 63,168,000	$ 42,843,000
Pulpwood, sawlogs and expenditures on current logging operations	84,921,000	92,539,000
Materials and operating supplies	40,725,000	39,683,000
	$188,814,000	$175,065,000

7. Investments	**1976**	**1975**
Marketable shares	$ —	$1,202,000
Bonds, debentures and notes	1,500,000	1,932,000
Townsite mortgages and advances	2,276,000	2,485,000
Other	1,467,000	1,811,000
	$5,243,000	$7,430,000

Investments are recorded at cost.

8. Long-Term Debt	**1976**	**1975**
Abitibi Paper Company Ltd.:		
First Mortgage Sinking Fund Bonds—		
6¼% Series C, maturing 1977	$ 1,297,000	$ 1,844,000
Sinking Fund Debentures—		
5¼% Series A, maturing 1985	11,853,000	12,776,000
7¼% Series B, maturing 1987	11,241,000	12,332,000
9¾% Series D, maturing 1990	13,500,000	14,948,000
10½% Series E, maturing 1995	42,500,000	42,500,000
11% Series F, maturing 1995	14,500,000	14,500,000
11⅜% Series G, maturing 1995	60,528,000	60,960,000
Abitibi Corporation and subsidiary companies:		
Revolving Bank Credit, maximum interest ⅝% above lender's prime rate	8,070,000	8,128,000
Instalment Note bearing interest at ⅜% above lender's prime rate maturing 1981	3,783,000	3,810,000
5⅛% Instalment Notes maturing 1984	7,465,000	8,230,000
5½% Instalment Note maturing 1986	10,088,000	11,176,000
7⅜% Instalment Notes maturing 1988	14,123,000	15,240,000
5¼% Instalment Note maturing 1991	3,107,000	3,269,000
Miscellaneous Notes	4,928,000	4,733,000

8. Long-Term Debt (continued)	1976	1975
The Price Company Limited and subsidiary companies:		
Sinking Fund Debentures—		
5¾% Series A, maturing 1982	9,900,000	11,100,000
6¾% Series B, maturing 1987	20,900,000	22,200,000
5½% Sinking Fund Notes maturing 1985	10,098,000	11,298,000
6% Subordinated Sinking Fund Notes maturing 1986	4,681,000	5,202,000
Sundry indebtedness	1,635,000	1,758,000
	254,197,000	266,004,000
Less: Amount due within one year	11,029,000	10,482,000
	$243,168,000	$255,522,000

Sinking fund and instalment payment obligations for 1977 amount to $12,529,000, of which $1,500,000 has been discharged by prior purchase and retirement. Principal repayment obligations for the years 1978 to 1981 are estimated to be $12,200,000, $10,700,000, $12,150,000 and $16,150,000 respectively. Long-term debt payable in U.S. dollars included above aggregated $137,515,000 U.S. at December 31, 1976 (1975—$142,541,000 U.S.).

Abitibi Paper Company Ltd. has effectively guaranteed payment of certain outstanding long-term debt of Abitibi Corporation and subsidiary companies amounting to $33,150,000 U.S. at December 31, 1976.

9. Preferred Shares

The Series A shares are redeemable at the option of Abitibi at $52 per share from June 1, 1978 to May 31, 1983 and thereafter at $51 per share. During 1976, 4,920 Preferred Shares, Series A with a par value of $246,000 (1975—4,150 shares with a par value of $207,500) were purchased and cancelled pursuant to the conditions attaching to this series.

The Series B shares are redeemable at par through the operation of a cumulative sinking fund at the rate of 40,000 shares annually beginning in June 1976. The Series B shares are otherwise redeemable at $52.50 per share up to June 15, 1981 and at declining prices thereafter. During 1976, 40,000 Preferred Shares, Series B with a par value of $2,000,000 were redeemed pursuant to the conditions attaching to this series.

10. Common Shares

Of the authorized and unissued common shares, 780,279 shares are reserved under the Key Employees' Stock Option Plan and options are outstanding on 769,483 shares at prices equal to market value at date of grant, ranging from $7.3125 to $11.375 per share, of which options in respect of 499,507 shares are held by senior officers of Abitibi. Options are for terms of up to ten years and are exercisable mostly in instalments upon fulfillment of service conditions.

The Plan was amended in 1973 to provide for the use of a market growth formula at date of exercise for all subsequent options and to permit this as an alternative for options then outstanding. In accordance with this formula, the market growth amount is determined by multiplying the number of shares with respect to which the option is exercised by the excess of market value per share at date of exercise over market value at date of grant. Shares to this value are issued in consideration of the relinquishment by the optionee of his option right to the remaining shares in the calculation of the market growth amount and the payment of one cent per share issued.

There were 754 shares issued in 1976 (1975—nil) under the terms of the Plan.

11. Income Taxes

The financial statements do not give recognition to potential tax reductions which would be available to certain subsidiary companies through the application of losses against taxable income which may be earned in future years. Tax losses aggregate approximately $12,600,000 and expire $2,100,000 in 1979, $6,300,000 in 1980, $2,400,000 in 1981 and $1,800,000 in 1983.

In addition, the undepreciated capital cost of depreciable assets of some subsidiary companies exceeds their net book value by approximately $3,800,000. Income tax benefits which might ultimately be obtained through the utilization of the foregoing, which apply principally to subsidiaries of The Price Company Limited, would be included in earnings, net of minority interest, in the year in which realized.

12. Capital Projects

An estimated $23.4 million will be required to complete approved capital projects.

13. Lease Obligations

Abitibi and its subsidiaries are committed under leases, principally for office and warehouse premises, woods equipment and charter vessels, for varying terms expiring up to 1999. The aggregate rental payments required for the 12 months ending December 31, 1977 under leases having an unexpired term of more than one year at December 31, 1976 are $9,100,000, of which $5,100,000 is attributable to leases having an unexpired term of more than three years and $3,800,000 is attributable to leases having an unexpired term of more than five years.

14. Unfunded Pension Benefits

The most recent independent actuarial reports indicate that the single-sum liability for unfunded past service pension benefits not provided for in the accounts at December 31, 1976 is approximately $35 million and that, at the current rate of Company contributions, the pension plans will be funded by December 31, 1990.

15. Anti-Inflation Program

Abitibi and its Canadian subsidiaries are subject to controls on prices, profits, compensation and dividends under the federal government's anti-inflation program and have complied with such program.

16. Other Statutory Information

(a) Remuneration in 1976 of Abitibi's 17 directors and 36 officers, including past officers, determined in accordance with the Canada Corporations Act, amounted to $68,000 and $2,190,000 respectively. Six officers of Abitibi served also as directors.

(b) Loans outstanding with officers relating to the purchase of residences amounted to $238,000 at December 31, 1976.

Auditors' Report

To the Shareholders of ABITIBI PAPER COMPANY LTD.:

We have examined the consolidated balance sheet of Abitibi Paper Company Ltd. as at December 31, 1976 and the consolidated statements of net earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. We have relied on the reports of other independent accountants who have examined the financial statements of Mattabi Mines Limited and Boise-Price Southern Newsprint Corporation, partly-owned companies accounted for by the equity method.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1976 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year after giving retroactive effect to the change to equity accounting described in Note 5.

PRICE WATERHOUSE & CO.
Chartered Accountants

Toronto, February 15, 1977

Five Year Review

(thousands of dollars except per share calculations)

	1976	1975*	1974	1973	1972
Sales and Earnings:					
Sales, less delivery expenses	$880,351	$764,384	$551,893	$403,536	$307,751
Depreciation and depletion	41,942	42,071	21,243	17,732	16,646
Interest expense	25,032	22,505	9,398	7,926	7,661
Income taxes	13,483	15,141	30,099	15,030	5,346
Minority shareholders' interest	3,631	8,966	1,156	—	—
Mining income	3,988	4,845	10,118	11,755	1,767
Net earnings	13,024	13,385	45,880	29,882	8,516
Per common share—before mining income	$ .33	$ 41	$ 1.94	$ .96	$ 34
—mining income	$ .14	$ 22	$ .56	$ .66	$ 09
—total	$ 47	$ .63	$ 2.50	$ 1.62	$ .43
Dividends Declared:					
Preferred shares	$ 4,584	$ 2,622	$ 718	$ 730	$ 731
Common shares	2,172	7,239	11,763	4,954	1,257
Per common share	$ .12	$ .40	$ .65	$ .275	$ 07
Additions to Fixed Assets	$ 54,371	$ 71,041	$ 35,460	$ 22,147	$ 11,657
Financial Position:					
Working capital	$224,562	$229,023	$ 87,948	$ 94,582	$ 89,619
Net fixed assets	489,437	478,205	452,985	228,611	225,577
Long-term debt	243,168	255,522	139,163	97,592	106,080
Deferred income taxes	99,725	91,299	80,940	33,592	31,122
Minority shareholders' interest	111,671	108,080	110,785	—	—
Preferred shares	47,016	49,261	9,469	9,712	9,749
Common shareholders' equity	262,192	255,924	252,880	219,431	195,043
Per common share	$ 14.49	$ 14.14	$ 13.97	$ 12.13	$ 10.86

*1975 figures have been restated as explained in Note 5 to the financial statements.

Primary Production

Abitibi

		Newsprint and Groundwood Specialty Papers	Fine and Printing Papers	Building Boards	Paper-boards	Market Pulp	Lumber
		Tons	Tons	Msf	Tons	Tons	Mfbm
Capacity	1976	1,183,000	170,000	937,000	81,000	122,000	165,000
Production	1976	984,000	113,000	854,000	58,000	93,000	72,000
	1975	804,000	77,000	733,000	30,000	46,000	63,000
	1974	1,251,000	183,000	738,000	77,000	120,000	79,000
	1973	1,216,000	172,000	735,000	81,000	110,000	38,000
	1972	1,012,000	145,000	677,000	79,000	113,000	30,000

Price

		Newsprint and Groundwood Specialty Papers	Kraft Paper	Paper-boards	Lumber
		Tons	Tons	Tons	Mfbm
Capacity	1976	1,092,000	50,000	75,000	252,000
Production	1976	938,000	41,000	53,000	196,000
	1975	873,000	31,000	53,000	66,000
	1974	1,037,000	52,000	63,000	158,000
	1973	993,000	37,000	41,000	193,000
	1972	1,112,000	49,000	61,000	171,000

(a) Capacity figures indicate effective annual output and generally are somewhat less than rated capacities due to allowances for items such as maintenance downtime.

(b) More than 90% of newsprint and groundwood specialty capacity is devoted to the production of newsprint. There is no clear demarcation between these products. Equipment which can produce groundwood specialties also can produce newsprint.

(c) A significant portion of Abitibi's market pulp production (almost 60% in 1976) is consumed in the manufacture of primary paper products at other Abitibi mills. Price also sells a small amount of market pulp which is residual capacity not required for kraft paper and paperboard operations.

(d) Building board production is expressed on an equivalent thickness basis. The figures shown for 1975 and earlier years differ from those previously reported due to changed conversion factors to bring reporting into line with that of industry trade associations.

Newsprint and Groundwood Specialty Papers

Shipments by the Canadian newsprint industry increased by 12.6% over 1975 but we estimate that less than half this can be attributed to growth in consumption with the remainder due to replenishment of inventories that were depleted during the strike. Consumption in the United States increased by approximately 5% but was still about 5% less than in 1974. The average operating rate for the Canadian industry in 1976 was 88%.

Production of newsprint and groundwood specialties by the Abitibi-Price newsprint group totalled 1.9 million tons in 1976 compared with 1.7 million tons in 1975 and 2.3 million tons in the record year of 1974. The overall operating rate of Abitibi and Price for the year, including the strike period, was 84%.

The effects of the strike, particularly with regard to the abnormal accumulation of old wood, had an adverse effect on mill operations that lasted throughout the year.

For 1977 a further 5% increase in consumption is forecast for the United States and some improvement in the rate of growth is anticipated in Canada. In offshore markets, relatively high inventory levels and a forecast of static economies for some major markets suggest a relatively flat consumption in the coming year. On balance, only a modest improvement in operating rates is forecast for the Canadian industry.

The $20 per ton increase in the price of newsprint which took effect at the close of 1976 will help the industry to recover in part increased costs of manufacture and distribution.

For the Abitibi-Price newsprint group, a hoped for strike-free year, new customer contractual commitments, an enhanced dedication to quality, the introduction during 1976 of a full line of groundwood specialty grades and the continued and growing effectiveness of the merged Abitibi and Price sales effort are expected to have a positive impact on earnings in 1977. However, the first quarter of 1977 will be unsatisfactory as publishers reduce inventories but there will be a progressive improvement during the year and, in total, 1977 will be well ahead of 1976.

Pulp

The bleached kraft pulp operation at Smooth Rock Falls was slow in reaching satisfactory production levels following the shutdown. Most of the problems were due to rot in the chip and log supply. The output is now back to normal.

Although pulp markets in 1976 were spotty at times, all pulp produced was consumed at other company mills or sold. The outlook for 1977 is for gradual improvement in pulp consumption and our mill is expected to operate at full capacity throughout the year.

Fine Papers

The Canadian fine paper industry is enduring serious and continuing problems from the prolonged shutdown. New purchasing habits and obligations acquired by customers have contributed to a continuation of a high volume of imports. This is being abetted by an American industry that has been operating well below capacity and has pursued the extra business available in Canada. This competition from imported papers has kept prices of many products under constant pressure and in only a few selective grades has it been possible to obtain modest increases. On balance, most of the cost increases of the past two years have had to be absorbed and Abitibi's fine paper manufacturing group operated at a substantial loss.

This environment has provided added impetus to the process of streamlining operations and improving efficiencies. At Thorold it was necessary to shut down two of the older, slower paper machines and reduce finishing room operations. At Thunder Bay new modern coating equipment was started up on an entirely new set of grades introduced as "The Coated Classics". These papers have been enthusiastically accepted in the trade and are expected to produce substantial additional volume in the coming year. As a consequence of the Thunder Bay installation, the high-cost coating mill at Georgetown has ceased making printing papers and is concentrating on a number of roll specialties.

Numerous specialty grades developed in recent years through Central Research and at the mills did much to help sustain all three divisions during the thin market conditions of the last several months.

Abitibi Provincial Paper is looking to 1977 with tempered optimism. There should be a slow but steady improvement in volume and profit margins as imports are reduced to more traditional levels and as modest economic growth reflects itself in higher paper usage. A major turnaround can be expected only when U.S. consumption approaches the capacity of U.S. producers and when a lower valued Canadian dollar helps the Canadian producers to be cost competitive.

Hilroy Limited

Sales and earnings for the year continued to be most satisfactory in the school, home and office stationery business. New equipment and methods introduced into our production facilities have already demonstrated their value in increased productivity and efficiency and will contribute greatly to improved earnings in the future.

The outlook for 1977 indicates falling margins due to serious competitive activity and our resolve to maintain our total market share. Gains will be made through the introduction of new products and we confidently expect our sales to continue to increase.

Canada Envelope Company

The envelope industry entered the year with a low order position due to the postal strike and the resulting cancellation of direct mail campaigns. By June, however, demand started to improve and with a better order position production efficiencies rose.

Sales for the year showed a modest rise of 3½% but earnings failed to catch up the ground lost early in the year and were somewhat below 1975 levels.

We enter 1977 with a good order position and are confident of improved sales and earnings. Growth will not be spectacular as the industry tends to follow the economy which seems likely to show only modest gains.

Inter City Papers Ltd. and Hillier Paper Limited

Sales and earnings of the paper merchant operations increased 20% and 25% respectively and attained record highs.

Warehouse operations in our trading cities contributed to the advance and one new branch in Halifax, Nova Scotia, was opened. The new warehouses built in Montreal in 1974 and in Toronto in 1975 are proving the efficiency of their design and layout and are the equal of any similar operation in North America.

Sales and earnings are forecast to continue to rise but at a more modest rate in line with the expected growth in the Canadian economy.

Paperboard, Kraft Paper and Packaging

Kraft paper and paperboard results for 1976 were disappointing. Shortly after operations resumed following the strike a fire affected paperboard production for an additional two months. A poor start-up after the reconstruction and weak markets for kraft paper and specialty paperboards contributed to the loss incurred by the division. Somewhat better markets are foreseen in 1977 which, combined with cost improvements, should provide an encouraging turnaround in earnings performance.

The corrugating medium plant at Sturgeon Falls operated at capacity levels following the strike until late October when the usual seasonal decline in demand began. In view of the projected increase in container demand next year, the outlook for medium sales is good and the plant is expected to operate near capacity in 1977.

Sales and earnings in the corrugated container division were much improved over 1975 levels. Demand for corrugated containers improved considerably, particularly during the first half. Nevertheless, competition remained intense and selling prices, therefore, were somewhat constrained. A new flexo-folder-gluer was installed

at the Pembroke plant in mid-year which increased daily output, permitted a broader product mix, and resulted in improved operating efficiencies in the second half. Demand is expected to grow by about 5% in 1977 and the division is targeting for a commensurate increase in both sales and earnings.

Building Products

United States

With housing starts rebounding from the severely depressed level of 1975 and with an active repair and remodelling market, 1976 sales increased 23% over the prior year establishing a new record for the division. Earnings improved significantly as well, although margins on interior panelling were still depressed from past levels due to intense competition.

U.S. housing starts in 1976 totalled approximately 1.5 million units, representing a 28% improvement over the 1975 level. Our sales of exterior products reached new highs. We are projecting 1977 starts at about 1.7 million units, a significant improvement over 1976, but still well below the 2.0 million plus levels of 1971, 1972 and 1973.

Escalating cost pressures continued through 1976 and again selling price increases were not sufficient to offset the sharp cost increases of the last several years. We were quite successful in cost containment, however, with operating efficiencies improving at all locations. In addition, significant cost benefits were derived from our intensified energy conservation program.

Introduction of 25 new products last year contributed significantly towards the record level of sales. Notable among these new products were simulated Stucco panels for interior and exterior use, Etched Cedar panelling and a new brown brick panel named Woodhaven. Several new products were introduced in late December which should stimulate sales in 1977. The large distribution warehouse in Toledo, Ohio, activated in December 1975, exceeded our objectives for improved customer service and freed up space for relocation of equipment at the Alpena plant, which resulted in improved operating efficiencies.

No new production facilities were added in 1976. However, improvements to existing facilities resulted in improved efficiencies and increased capacity, the largest project involving a major renovation of the S1S press at Alpena.

In view of the projected increase in U.S. housing starts and the anticipated improvement in general business conditions, we are optimistic about 1977 results. We are budgeting for increased research and development to provide our customers with a continuing selection of attractive new products. By striving for leadership in the design and quality of panelling products, we are confident the division can continue on its path of profitable growth in 1977.

Canada

The hardboard siding plant at Sturgeon Falls operated at close to capacity from start-up at the end of February following the strike to the end of the building season in late October when it was placed on a reduced level of operation.

While Canadian housing starts in 1977 are not expected to reach the 1976 level, an active home repair market is anticipated. A large percentage of exterior siding is used in home renovation and hardboard siding is gaining increased acceptance. For these reasons the demand for our siding products is expected to remain healthy. We are forecasting an ambitious sales increase in 1977 which should result in substantially improved earnings for the division.

Lumber

Demand for lumber in both the United States and Canada improved in 1976 as compared to the previous year. This was due to the substantial increase in housing starts as well as to increased use of lumber for industrial purposes and home improvements.

This upward trend in housing starts is expected to continue in the United States while in Canada a slight setback is forecast. Nevertheless, for our market area the overall demand for lumber should be higher in 1977 with attendant higher prices for our products.

All three Abitibi sawmills were closed at the beginning of the year until the pulp and paper mills resumed operations as there was no outlet for their wood residues. In addition, both Northern Wood Preservers and Hudson later experienced strikes of their own of two months and two weeks respectively.

The Skeena, British Columbia, sawmill of Price operated at capacity throughout 1976, but the Shipshaw and Price sawmills in Quebec suffered periods of shutdown. The Price sawmill normally is closed for the winter months due to freeze-up. Shipshaw was down early in the year because of the paper mill strikes and was closed in November because of uneconomical operation. Both sawmills are expected to resume operations in the late spring of 1977.

The Hudson, Ontario, and Shipshaw, Quebec, sawmills could not be operated profitably at 1976 selling prices nor are profitable operations expected for 1977 when higher selling prices are projected. Considerable efforts are being made to determine what changes can be made to improve the wood supply and to make these mills cost competitive.

The new Peribonca dimensional sawmill of the Price Company completed its initial start-up in March. This is the largest and most efficient sawmill operation east of the Canadian Rockies. During 1976, as start-up problems were overcome and the production rate increased, Peribonca began making a contribution to company earnings.

Abitibi's new sawmill at White River, Ontario, is scheduled to begin operations in the summer of 1977.

During the year the marketing operations for lumber products manufactured at all Abitibi and Price sawmills were consolidated into one group. This new jointly owned subsidiary, Abitibi-Price Lumber Ltd., replaced four separate sales outlets. It handles a relatively large segment of lumber sales in North America and is exerting a pronounced and favourable impact on the market.

Price Wilson Limited

Price Wilson's consolidated net loss for the year amounted to $3 million compared with a loss of $1.4 million in 1975. This situation has occasioned a great deal of effort at all levels of management.

The poor operating results were caused principally by overall weak markets so that selling prices could not be adjusted sufficiently to compensate for higher operating costs. Additionally losses were incurred due to start-up costs of the warehousing subsidiary, National Distribution Services Inc., located in the United States. Losses were also incurred, in association with Lever Brothers Limited, in the development of a specialized garment transportation service, Texport Limited. Both operations are separate corporate entities so that their losses could not be claimed for income tax purposes.

Woodlands

Abitibi-Price are continually searching for more economical ways of harvesting the forest. The Newfoundland logging operation is the most mechanized with 22% of the wood now cut and handled completely by machine. Trials are being carried out in northern Ontario with other harvesting machines that, if successful, would benefit the whole organization. The new slasher operation on the Peribonca River, which is designed to select the highest quality sawlog material from the whole tree and then convert the balance into pulpwood, has proven to be very efficient.

The warm, dry summer of 1976 created a severe fire hazard across much of the Abitibi-Price limits. Ontario experienced the worst fire season since 1923. In both Ontario and Manitoba, Abitibi suffered losses. A total of 24,500 acres of productive forest land were burned over. Almost 200,000 cunits of standing timber in the fire area were destroyed or so severely charred as to be unsalvageable. One quarter of these losses occurred on company owned lands located northwest of Thunder

Bay, Ontario. Twelve thousand cunits of wood in skidways were also lost to these fires. In Quebec over 25,000 acres were burned, mainly on the limits of the Saguenay-Lake St. John division. Fire losses on limits held in Newfoundland amounted to 4,800 acres, well above the recent average, but less than the disastrous 27,200 acres burned in 1974. Our losses were significant but small in comparison with the total and do not seriously imperil the companies' long-term wood supply.

The spruce budworm infestation in eastern Canada has invaded Newfoundland and Quebec to a very considerable extent. In Quebec some 1,400 square miles were sprayed at a total cost of over $1.5 million of which one third was paid for by the Price Company. Natural parasites have considerably decreased the budworm population in western and central Quebec and are expected to reduce the intensity of the budworm attack on our holdings during 1977. The Province of Newfoundland is in its third year of budworm infestation. Tree mortality has been minor to date but could be serious in 1977. The company is working closely with the federal and provincial governments to formulate a plan of control.

The intensive silvicultural program introduced last year to triple the softwood fibre yields per acre on Abitibi's freehold land at Thunder Bay is proceeding according to plan. The first outplantings of one year old seedlings were completed. Two greenhouses were constructed and 280,000 seedlings were successfully germinated and grown. These will be planted on the company's land in the spring of 1977.

In Newfoundland the first planting was made of genetically superior white spruce seedlings. Four hundred acres of overcrowded young forest were thinned experimentally to determine the cost of thinning and the extent of the anticipated increase in the rate of growth. Experiments in other silvicultural methods were carried on in co-operation with the provincial and federal governments.

In Quebec, Bill 27 calls for the retrocession of all timber limits to the

Crown, being replaced with a system of supply contracts. Negotiations on this were to begin in 1976 but have not yet started.

Mineral Interests

The Mattabi base metal mine near Ignace, Ontario, is 60% owned by Mattagami Lake Mines and 40% by Abitibi. It continued to operate at capacity throughout 1976 and 1,065,711 tons were treated which was almost identical with the total of the previous year. Ore was treated grading 8.13% zinc, 1.23% copper, 0.76% lead and 3.53 ounces silver per ton and was somewhat higher in grade than 1975.

Earnings for the year were $10.0 million or 7.4% less than the $10.8 million earned in 1975. Abitibi's share of these earnings in 1976 was $4.2 million compared with $4.3 million in 1975. While production of zinc and copper exceeded the production of 1975, lower metal prices and increased operating costs caused the reduction in net income. Mattabi continued to pay most of its cash to its shareholders in dividends and in 1976 paid $13 million of which Abitibi's 40% was $5.2 million.

Ore reserves were reduced by the tonnage milled during 1976, by reinterpretation of additional diamond drilling and for economic reasons. All or part of the tonnage reserve reduction made for economic reasons may be mined when metal prices improve. At year end, ore reserves totalled 6,500,000 tons grading 6.89% zinc, 0.79% copper, 0.68% lead and 2.67 ounces silver per ton. Exploration drilling on the property is continuing with no economic results to date.

Mining operations of the Price Company resulted in a net loss of $0.3 million in 1976 compared with net income of $1 million in 1975. The loss is attributable to reduced production from the mine at Buchans, Newfoundland, together with comparatively low base metal prices and higher production costs. Present indications are that the ore reserves of the Buchans mine will run out before 1980. Consequently, concentrated exploration work is being carried out on the mineral lands held in Newfoundland. This program includes airborne geophysical surveys, geological work and diamond drilling.

Concentrated diamond drilling has been carried out on the Skidder property located about eight miles from the Buchans mine. Other exploration work was carried out in New Brunswick under joint venture agreements.

Environmental Control

Capital expenditures in 1976 by Abitibi-Price on environmentally related items were $8.5 million. We continued to work on a program of installing primary treatment systems in four Ontario mills located at Iroquois Falls, Smooth Rock Falls, Sturgeon Falls and Sault Ste. Marie. This program, which will be completed early in 1977, represents an expenditure of about $5.8 million. Primary treatment systems presently are functioning at the other Ontario mills.

At our Smooth Rock Falls mill, the start-up at year end of a large refuse burning boiler and associated power generation unit contributes in a major way to solid waste environmental improvement while reducing requirements for purchased power. All of the refuse generated at the mill will now be burned.

Two major projects having a direct bearing on the environment were being carried out by the Price Company in 1976. One was the conversion of the stone groundwood mill at Grand Falls, Newfoundland, to refiner groundwood, which is expected to reduce sulphite pulp requirements by more than 50% with a corresponding reduction in the oxygen demand of the mill effluent. This project will be coming on stream early in 1977. The second is at the Chandler, Quebec, mill where a refuse burning boiler is under construction and will be completed later in 1977. It will eliminate a large solids waste disposal problem and in doing so provide additional energy.

The Quebec Government's environmental regulations covering water pollution for the pulp and paper industry have been under review for some time. It is expected that they will be implemented early in 1977. The new regulations are similar to those presently under review by the federal government.

A gradual tightening of the Ontario Government's environmental control objectives is taking place due to pressure from the public and the International Joint Commission for Inland Waters. A major consequence is likely to be a thrust to provide secondary treatment facilities, or to achieve the equivalent by process changes, at Abitibi's mills. Primarily this is aimed at correcting the pollution control problem presented by the effluent from the chemical pulping process that is an integrated part of newsprint manufacturing. Providing the capital necessary to accommodate such a program is a matter of great concern to management.

Last November the Ontario Ministry of the Environment charged Abitibi with alleged breaches of The Environmental Protection Act and The Ontario Water Resources Act by discharging water containing wood and chemical wastes from its Iroquois Falls mill into the Abitibi River. We are deeply disturbed by the charges especially when completion of approved projects costing in excess of $2.4 million to improve conditions have been delayed by events beyond our control such as strikes. These charges have not as yet been heard. Abitibi is dedicated to achieving the levels of pollution control required by governments for the operations of its primary pulp and paper mills.

Research

To be effective, the results of research and development studies must be carried into production, and the past year has been notable in the degree to which this was accomplished. Refiner mechanical pulping is now a commercial process at Grand Falls. Thermomechanical pulping has undergone large-scale trials for both newsprint and fine paper grades. A 40-ton-per-day pilot plant for study of even more promising modifications of

refiner mechanical pulping has recently been put into service at Kenogami. This augments a similar development unit in operation at Beaupré. Papermaking and pressroom trials of newsprint made with a one pulp furnish will take place early in 1977.

In like manner, new measurement techniques for particular aspects of paper machine and winder operations are being actively applied throughout the mills. Increased emphasis has been given to studies of newsprint runability and printability because of the rapid changes which are taking place in newspaper printing operations.

Development of special wallpaper grades for specific uses entailed many mill trials, as did the new series of coated printing grades where a number of furnish and coating modifications gave rise to improved products for the fine paper division.

A new surface treatment for exterior siding to improve weatherability and stability received extensive pre-production trials in both the Canadian and U.S. board mills.

Personnel

The safety and health of Abitibi's 22,000 employees is a prime responsibility. Comparisons with last year's strike-ridden year are not meaningful, however, we are pleased to report that the average accident frequency within our mills was better than the average in the industry. Management will continue its maximum efforts to improve the protection of employees giving particular emphasis to the woodlands operations.

More effective communications is one of our major goals and a number of steps have been undertaken to achieve this end. A communications task force has been set up, with membership drawn from all levels within the company, to make recommendations on how to improve the effectiveness of communication between management and other employees. Related steps have been the upgrading of supervisory training programs, implementation of the assessment centre method of identifying individuals with management potential and establishment of a human resources inventory system.

During 1976 labour agreements were successfully negotiated with both mill (Ontario, Newfoundland and Manitoba) and woods unions (Ontario and Quebec). The mill union agreements run through to April 30, 1978 and the woods agreements until August 31, 1978.

Negotiations for the renewal of the Newfoundland woodsworkers' contract began late in January 1977 and will be followed by negotiations with the Manitoba woodsworkers in February. Negotiations continue in the Quebec mills which have contracts with the C.N.T.U. The agreement with workers at our largest building products mill in the United States at Alpena, Michigan is up for renegotiation as of May 1, 1977.

Directors and Officers

Directors

Marcel Bélanger, O.C.
Partner
Bélanger, Dallaire, Gagnon & Associés
Quebec City, Canada

Thomas J. Bell
Chairman of the Board
and Chief Executive Officer
Abitibi Paper Company Ltd.
Toronto, Canada

Edmund C. Bovey
Chairman
Norcen Energy Resources Limited
Toronto, Canada

Marsh A. Cooper
President and Managing Director
Falconbridge Nickel Mines Limited
Toronto, Canada

Robert C. Gimlin
Chairman of the Board
and Chief Executive Officer
Abitibi-Price Sales Corporation
New York, U.S.A.

Charles L. Gundy
Chairman
Wood Gundy Limited
Toronto, Canada

John E. Haire
Vice-President, Finance
Abitibi Paper Company Ltd.
Toronto, Canada

Leonard G. Lumbers
Chairman of the Board
Noranda Manufacturing Ltd.
Toronto, Canada

Norman J. MacMillan, C.C., Q.C.
Director
Montreal, Canada

General Lauris Norstad
Chairman of Executive Committee
Owens-Corning Fiberglas Corporation
Toledo, Ohio, U.S.A.

The Honorable John P. Robarts, P.C., C.C., Q.C.
Partner
Stikeman, Elliott, Robarts and Bowman
Toronto, Canada

C. Harry Rosier
President and Chief Operating Officer
Abitibi Paper Company Ltd.
Toronto, Canada

Kenneth R. Thomson
Chairman of the Board and President
Thomson Newspapers Limited
Toronto, Canada

Charles R. Tittemore
President and Chief Executive Officer
The Price Company Limited
Quebec City, Canada

John A. Tory, Q.C.
Partner
Tory, Tory, DesLauriers & Binnington
Toronto, Canada

William O. Twaits, C.C.
President
Sarcalto Limited
Toronto, Canada

Honorary Director

Harry J. Carmichael

Officers

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Chairman of the Board
and Chief Executive Officer

C. Harry Rosier
President and Chief Operating Officer

Charles R. Tittemore
Group Vice-President

Thomas H. Birchall
Vice-President, Fine Papers

Edward J. Brady
Vice-President, Industrial Relations

Charles F. Buckland
Vice-President,
Building Products and Packaging

John G. Davis
Vice-President,
Converting and Distribution

Robert D. Duncan
Vice-President, Corporate Services

John E. Haire
Vice-President, Finance

William J. Johnston
Vice-President, Woodlands Operations

Mark D. S. Kellow
Vice-President, Personnel

Bernd K. Koken
Vice-President,
Lumber and Kraft Products Group

Bruce W. Little
Vice-President,
Newsprint Manufacturing, Region 2

J. Ian McGibbon
Vice-President, Corporate Development

T. Newman McLenaghen
Vice-President, Newsprint Operations

Eugene L. Neal
Vice-President, Public Relations

James B. Papoe
Vice-President,
Newsprint Manufacturing, Region 1

Michael D. Thompson
Secretary and General Counsel

H. Paul Armstrong
Treasurer

Roy Curtis
Assistant Vice-President, Finance

J. Kenneth Stevens
Operations Controller

H. Colin Warner
Corporate Controller

Douglas J. Butler
Assistant Secretary

Robert A. Cook
Assistant Treasurer

Transfer Agents and Registrars

Montreal Trust Company
Toronto, Montreal, Vancouver, Calgary, Regina, Winnipeg and Halifax, Canada

Citibank N.A.
New York, U.S.A. (Transfer Agent)

Bankers Trust Company
New York, U.S.A. (Registrar)

Auditors

Price, Waterhouse & Co.
Toronto, Canada

Abitibi and Price Products, Sales Office

Products	Sales and Service
Newsprint and Groundwood Specialty Papers	**Abitibi-Price Sales Ltd.** Toronto, Ont.; Montreal, Que. **Abitibi-Price Sales Corporation** New York, N.Y.; Des Plaines, Ill.; Atlan Buenos Aires, Arg. **Abitibi-Price Sales Company Limi** London, England
Kraft Pulp	**Abitibi Paper Company Ltd.** Toronto, Ont.
Paperboard Kraft Paper	**Price Kraft and Paperboard Corpo** Montreal, Que.; Don Mills, Ont.
Corrugating Medium	**Abitibi Packaging Division** Rexdale, Ont.
Hardboard Woodgrain Hardboard Hardboard Siding Prefinished Plywood Panels Prefinished Mouldings Insulating Sheathing	**Abitibi Corporation Building Prod** Atlanta, Ga.; Arlington, Tex.; Troy, Mic CampHill, Pa.; Hudson, Ohio; Lenexa, Middlebury, Ind.; Avon, Conn.; Bound
Hardboard Siding	**Abitibi Building Products Divisio** Rexdale, Ont.
Lumber Ties Poles Treating Services	**Abitibi-Price Lumber Ltd.** Toronto, Ont.; Thunder Bay, Ont.; Van
Corrugated Containers	**Abitibi Containers** Rexdale and Pembroke, Ont.; Montreal
Fine and Printing Papers	**Abitibi Provincial Paper** Toronto, Ont.; Montreal, Que.
School, Home and Office Supplies	**Hilroy Limited** Toronto, Ont.; Montreal, Que.; Vancou **The Canadian Stationery Compan** Montreal, Que.
Envelopes	**Canada Envelope Company** Stellarton, N.S.; Halifax, N.S.; Montrea London, Ont.; Winnipeg, Man.; Calgar
Paper Merchants	**Inter City Papers Ltd.** Inter City Papers Ottawa, Mississauga and London, O **Lauzier, Little Inc.** Montreal and Quebec City, Que.; Ha **Hillier Paper Limited** Winnipeg, Man.
Converted Paper Products— bags, towels, folding cartons and wrapping paper	**Price Wilson Limited** —major centres across Canada
Resale Products, warehousing and distribution services	**Price Wilson Limited** —major centres across Canada National Distribution Services, Inc. New York, N.Y.; Atlanta, Ga.; Chicag

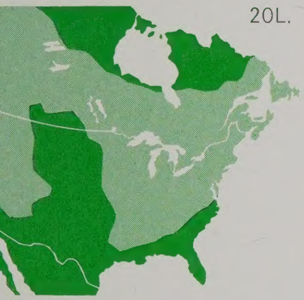
Abitibi and Price Products, Sales Offices and Plants

Products	Sales and Service	Manufactured at
Newsprint and Groundwood Specialty Papers	**Abitibi-Price Sales Ltd.** Toronto, Ont.; Montreal, Que. **Abitibi-Price Sales Corporation** New York, N.Y.; Des Plaines, Ill.; Atlanta, Ga.; Troy, Mich.; Buenos Aires, Arg. **Abitibi-Price Sales Company Limited** London, England	Pine Falls, Man.; Thunder Bay, Ont. (2 mills); Sault Ste. Marie, Ont.; Iroquois Falls, Ont.; Beaupré, Que.; Alma, Que.; Jonquière, Que.; Chandler, Que.; Grand Falls, Nfld.; Augusta, Ga.; DeRidder, La.
Kraft Pulp	**Abitibi Paper Company Ltd.** Toronto, Ont.	Smooth Rock Falls, Ont.
Paperboard Kraft Paper	**Price Kraft and Paperboard Corporation** Montreal, Que.; Don Mills, Ont.	Jonquière, Que.
Corrugating Medium	**Abitibi Packaging Division** Rexdale, Ont.	Sturgeon Falls, Ont.
Hardboard Woodgrain Hardboard Hardboard Siding Prefinished Plywood Panels Prefinished Mouldings Insulating Sheathing	**Abitibi Corporation Building Products Division** Atlanta, Ga.; Arlington, Tex.; Troy, Mich.; Des Plaines, Ill.; CampHill, Pa.; Hudson, Ohio; Lenexa, Kans.; Memphis, Tenn.; Middlebury, Ind.; Avon, Conn.; Boundbrook, N.J.	Alpena, Mich.; Blountstown, Fla.; Chicago, Ill.; Cucamonga, Calif.; Middlebury, Ind.; Roaring River, N.C.
Hardboard Siding	**Abitibi Building Products Division** Rexdale, Ont.	Sturgeon Falls, Ont.
Lumber Ties Poles Treating Services	**Abitibi-Price Lumber Ltd.** Toronto, Ont.; Thunder Bay, Ont.; Vancouver, B.C.	Terrace, B.C.; Hudson, Ont.; Thunder Bay, Ont.; Smooth Rock Falls, Ont.; White River, Ont.; Falardeau, Que.; L'Ascension, Que.; Price, Que.
Corrugated Containers	**Abitibi Containers** Rexdale and Pembroke, Ont.; Montreal, Que.	Rexdale, Ont.; Pembroke, Ont.
Fine and Printing Papers	**Abitibi Provincial Paper** Toronto, Ont.; Montreal, Que.	Thorold, Ont.; Thunder Bay, Ont.; Georgetown, Ont.
School, Home and Office Supplies	**Hilroy Limited** Toronto, Ont.; Montreal, Que.; Vancouver, B.C. **The Canadian Stationery Company Limited** Montreal, Que.	Toronto, Ont.; Vancouver, B.C. Joliette, Que.
Envelopes	**Canada Envelope Company** Stellarton, N.S.; Halifax, N.S.; Montreal, Que.; Toronto, Ont.; Ottawa, Ont.; London, Ont.; Winnipeg, Man.; Calgary, Alta.; Edmonton, Alta.; Vancouver, B.C.	Stellarton, N.S.; Montreal, Que.; Toronto, Ont.; Winnipeg, Man.; Calgary, Alta.; Vancouver, B.C.
Paper Merchants	**Inter City Papers Ltd.** Inter City Papers Ottawa, Mississauga and London, Ont. **Lauzier, Little Inc.** Montreal and Quebec City, Que.; Halifax, N.S. **Hillier Paper Limited** Winnipeg, Man.	
Converted Paper Products—bags, towels, folding cartons and wrapping paper	**Price Wilson Limited** —major centres across Canada	Lachute, Que.
Resale Products, warehousing and distribution services	**Price Wilson Limited** —major centres across Canada **National Distribution Services, Inc.** New York, N.Y.; Atlanta, Ga.; Chicago, Ill.; Dallas, Tex.; Los Angeles, Calif.	

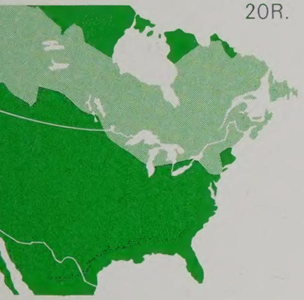
The Illustrations

Cover **White Spruce—picea glauca**
An elite species of the pulp and paper industry, the white spruce is a characteristic tree of the Canadian Boreal Forest. Many of us recognize it as a favourite Christmas tree. It plays an important role in the Canadian lumber industry. The roots of this tree are very pliable, so much so that the Indians often used them for lacing the birch bark on canoes.

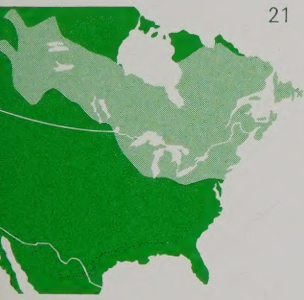
18 **Jack Pine—pinus banksiana**
A two-needle pine, a casual glance might confuse this tree with the now popular Christmas tree, Scotch Pine. The Jack Pine is found in the northern forests of eastern Canada, and westward in the northern regions of Manitoba, Saskatchewan, Alberta and into the Northwest Territories. It develops best on sandy soils and plays an important role in regenerating recent burned-over areas. Probably because it grows on poor farming soil, the early settlers looked on the Jack Pine as an evil tree.



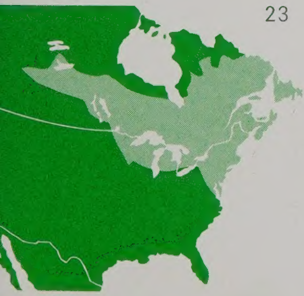
20L. **Trembling Aspen—populus tremuloides**
A slender graceful tree, the Aspen poplar, like many of the other poplars, can propogate by means of suckers that arise from roots near the ground's surface. This is a characteristic of great importance in the natural regeneration of cut-over and burned-over areas. The Aspen is found throughout the forest areas of Canada. Early settlers extracted a quinine-type, very bitter tasting drug from its inner bark.



20R. **Black Spruce—picea mariana**
The long fibre of the black spruce makes this tree very ideal for pulpwood in manufacturing paper products such as newsprint. Besides being able to reproduce from seed it can reproduce by layering, i.e. the lower live branches when covered by moss and litter develop roots and the branches from it develop into trees. Unlike other spruce, it can grow and develop in sphagnum bogs and is found in much the same geographic range in Canada as the White Spruce.



21 **Tamarack—larix laricina**
This eastern larch is found in cold, wet, poorly drained places—growing better in moist, well drained light soil. Having a wide range, it can be found in association with Cedar and Black Spruce. It is the only cone-bearing tree that in the Autumn its needles turn yellow and drop. A potential pulpwood species, it gained fame for its tannin used in leather curing.



23 **Balsam Fir—abies balsamea**
In some locations known as "the church steeple", the Balsam Fir has a distinctive symmetrical outline from a narrow pyramid crown that ascends into a spire-like top. It is prominent in the Maritime forest, Quebec, Ontario and sweeps into Manitoba and Saskatchewan and northern Alberta. An important pulpwood species, it is sometime sawn and marketed as "spruce". The characteristic identification is the raised resin-filled blister on the younger age bark.

ABITIBI

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